

Message Text

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PAGE 01 KINGST 03349 201210Z

41

ACTION ARA-20

INFO OCT-01 ISO-00 DRC-01 EUR-25 CIAE-00 DODE-00 INR-11

NSAE-00 PA-04 RSC-01 USIA-15 PRS-01 SP-03 AID-20

EB-11 FRB-03 XMB-07 OPIC-12 CIEP-03 LAB-06 SIL-01

OMB-01 NSC-07 SS-20 STR-08 CEA-02 /183 W

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R 192230Z SEP 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 5821

INFO AMEMBASSY NASSAU

USDOC WASHDC

USTREASURY WASHDC

C O N F I D E N T I A L KINGSTON 3349

EO 11652: GDS

TAGS EFIN, JM, CJ

SUBJECT: CAYMAN ISLAND BANK COLLAPSE

REF: KINGSTON A 189 DATED DECEMBER 10, 1973

1. STERLING BANK AND TRUST COMPANY, LTD. IN THE CAYMAN ISLANDS, SUBSIDIARY OF INTERBANK HOUSE, HAS GONE INTO VOLUNTARY LIQUIDATION AS A RESULT OF LARGE WITHDRAWALS BY DEPOSITORS. STERLING BANK PURCHASED CAYMAN OPERATIONS OF THE SAVINGS AND LOAN ASSOCIATION AND OPENED FOR BUSINESS IN JUNE 1970. PARENT COMPANY, INTERBANK HOUSE, IS BASE FOR MORE THAN 350 COMPANIES AND HAS INVESTMENTS IN CANADA, MEXICO, UNITED STATES, GERMANY, SWITZERLAND, SPAIN AND HAITI. ACCORDING TO PRESS REPORTS SOME WITHDRAWALS FROM STERLING BANK WERE AS MUCH AS JAMAICA DOLLARS 9 MILLION AND THAT MANY OF THE LARGER CLIENTS OF STERLING BANK WERE JAMAICANS. STERLING BANK OPERATES UNDER "A" LICENSE, I.E., THAT AUTHORIZING LOCAL OPERATIONS AS WELL AS OFF-SHORE
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PAGE 02 KINGST 03349 201210Z

(REPAIR). PRESS REPORTS STATE THAT STERLING WAS HEAVILY INVOLVED

IN RECENT MASSIVE COMMERCIAL AND REAL ESTATE DEVELOPMENTS
IN THE CAYMANS AND ALSO
OPERATED AS OFFSHORE BANK DEALING IN THE EURO DOLLAR
MARKET. STERLING BANK REPORTEDLY LAUNCHED ITS FIRST
MORTGAGE SUBSIDIARY TWO MONTHS AGO WITH OFFICIAL
OPENING AND RECEPTION COSTING MORE THAN DOLLARS 45 THOUSAND.
IN ADDITION TO CAUSING SERIOUS PROBLEMS
FOR THE CAYMANS, THE BANK'S COLLAPSE HAS MEANT 400
EMPLOYEES NOW UNEMPLOYED.

2. ACCORDING LATEST INTERBANK BROCHURE (POUCHED
ARA/CAR/J SEPT 19), SUBSIDIARIES OF INTERBANK
INCLUDE STERLING BANK AND TRUST COMPANY, CAYMAN
MORTGAGE CORPORATION, STERLING REALTY COMPANY, ETC.
WHEN ECONOFF VISITED CAYMAN ISLANDS LAST NOVEMBER
EMBASSY HAD HEARD RUMORS FOR SOME TIME THAT INTERBANK
MIGHT BE ENGAGED IN SOME ILLICIT TRANSACTIONS BUT
WE HAVE NEVER BEEN ABLE TO OBTAIN ANY CONCRETE
INFORMATION. FINANCIAL SECRETARY OF GRAND CAYMAN
INDICATED THEY WERE VERY DETERMINED TO POLICE THE
BANKING SYSTEM AND TO SOME EXTENT HAD BANKS POLICING
EACH OTHER. DURING RECENT VISIT TO CAYMANS, SEPTEMBER
11-13, BY AMBASSADOR GERARD HE RECEIVED THE SAME
INFORMATION

3. DESPITE REPEATED ATTEMPTS, EMBASSY UNABLE TO
CONTACT LOCAL BANKING SOURCES (INCLUDING U.S.) FOR
COMMENT BUT WILL REPORT SAME WHEN AVAILABLE. SINCE
INTERBANK HAS LARGE NUMBER OF SUBSIDIARIES WHO ARE
INVOLVED IN NUMBER OF COUNTRIES, BANK FAILURE COULD
BE FELT IN MUCH LARGER AREA THAN CARIBBEAN

4. WE ARE UNABLE TO ASSESS YET IMPACT ON JAMAICA
BUT AMBASSADOR GERARD, WHO ATTENDED BANK OF JAMAICA
DIRECTORS' LUNCHEON SEPTEMBER 18, REPORTED AFTER-
WARDS THAT BOTH PM MANLEY AND MEYER MATALON HAD
TELEPHONED GOVERNOR BROWN TO TELL HIM OF BANK'S
COLLAPSE. IT HAS ALSO BEEN RELIABLY REPORTED THAT ELI
MATALON FLEW TO GRAND CAYMAN TODAY TO INVESTIGATE SITUATION
INCLUDING POSSIBLE ASSOCIATION WITH GANJA TRADE. GERARD
CONFIDENTIAL

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PAGE 03 KINGST 03349 201210Z

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